

Message Text

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SUBJECT: DECEMBER 19 ECONOMIC AND DEVELOPMENT REVIEW
COMMITTEE (EDRC) REVIEW OF FINLAND

REF: (A) PARIS 35456; (B) EDR(77)27; (C) EDR(77)27 ADDENDUM

1. WE AGREE THAT TOPICS SUGGESTED PARA (9) REF (A) COULD
BE USEFULLY DISCUSSED AT DECEMBER 19 EDRC REVIEW OF FINLAND.

2. WE BELIEVE REASONS FOR DISCREPANCY BETWEEN FORECAST FOR
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1977 AND ACTUAL PERFORMANCE ARE WORTH EXPLORING, IN ORDER TO
IMPROVE FORECASTING CAPABILITY OF BOTH THE SECRETARIAT AND
THE FINNISH AUTHORITIES.

3. MISSION MAY WISH TO EMPHASIZE, IF POINT IS NOT SUFFIC-
IENTLY PRESSED BY SECRETARIAT AND/OR FINNISH REPS, CRITICAL
ROLE OF EXTERNAL DEMAND IN FINNISH SITUATION. WITHOUT SIGNI-

FICANT GROWTH IN MAJOR FOREIGN MARKETS, POSSIBILITIES FOR IMPROVED FINNISH ECONOMIC PERFORMANCE ARE VIRTUALLY NIL. (EVEN WITH GROWTH OF EXTERNAL DEMAND, POSSIBILITIES APPEAR LIMITED.)

4. IN RECENT WEEKS FINNISH AUTHORITIES HAVE TAKEN NEW MEASURES DESIGNED TO IMPROVE FINLAND'S INTERNATIONAL

COMPETITIVE POSITION. WE WOULD LIKE TO SEE A DISCUSSION OF THE PROBABLE IMPACT OF THESE MEASURES, WHICH WERE NOT INCLUDED IN THE SECRETARIAT'S ANALYSIS (REF B), IN ORDER TO INCLUDE APPROPRIATE REFERENCES IN FORTHCOMING "ECONOMIC SURVEY."

5. WHILE WE TEND TO AGREE WITH SECRETARIAT'S PESSIMISTIC OUTLOOK FOR 1978, WE ARE CONCERNED THAT TONE OF SECRETARIAT'S ANALYSIS IN "ECONOMIC SURVEY" NOT BE TOO NEGATIVE. MISSION SHOULD THEREFORE ENSURE THAT FACTORS SUCH AS REDUCTION IN CURRENT ACCOUNT DEFICIT AND RATE OF INCREASE IN UNIT LABOR COSTS ARE CAST IN POSITIVE LIGHT. POLICY MEASURES ADOPTED BY FINNISH AUTHORITIES TO RESTORE EXTERNAL BALANCE AND IMPROVE INTERNATIONAL COMPETITIVE POSITION HAVE NOT BEEN WITHOUT POLITICAL COST, E.G., HIGHER UNEMPLOYMENT AND DOMESTIC PRICES (LATTER REFLECTING DEVALUATION AND INCREASED INDIRECT TAXES). FINNISH AUTHORITIES SHOULD BE COMMENDED FOR ADOPTING NECESSARY BUT UNPOPULAR MEASURES.
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6. MISSION MAY WISH TO EXPLORE WHETHER THERE IS ANY SCOPE FOR FUTURE INVESTMENT PROJECTS WITH LIMITED IMPORT CONTENT, WHICH PROJECTS MIGHT ASSIST IN ACHIEVING GOF'S MEDIUM-TERM GROWTH, EMPLOYMENT AND EXTERNAL BALANCE TARGETS.

7. WE WOULD LIKE TO KNOW WHICH OF TWO ALTERNATIVE SCENARIOS SKETCHED BY SECRETARIAT -- DEVALUATION WITH APPROPRIATE INCOMES POLICY OR SIGNIFICANT RESTRAINT OF DOMESTIC DEMAND -- IS VIEWED BY FINNISH AUTHORITIES, SECRETARIAT, AND MEMBER COUNTRY REPS AS MOST APPROPRIATE FOR FINLAND IN 1978. VANCE

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